


21 July 1977

MEMORANDUM FOR: Deputy Director for Accounts and Audit/OF

STATINTL FROM

:   
Chief, Commercial Systems and Audit Division/OF

SUBJECT : Actions on Audit Recommendations

1. In compliance with your request we herewith furnish our analysis of audit reports issued by the Commercial Systems and Audit Division since 1 January 1974, and which indicates status of costs questioned as requested by the General Accounting Office.

2. Time did not permit the analysis of costs questioned on all audit reports issued during the periods requested. Inasmuch as audit deductions are made on interim reports and which may be reinstated at time of final audit (because of contractors' credits or specific authorizations by Contracting Officers) we confined our analysis of Reports with Questioned Cost Findings to those reports on which only additional costs were questioned at time of final audit. Although the reports with questioned cost findings and the dollar amounts are therefore slightly understated, we believe the results properly depict Agency actions to resolve audit findings on procurement contracts.

  
STATINTL

BY THE COMPTROLLER GENERAL

# Report To The Congress

## OF THE UNITED STATES

### More Effective Action Is Needed On Auditors' Findings — — Millions Can Be Collected Or Saved

The lack of a good system for resolving auditors' findings could be costing the Government hundreds of millions annually--most of which grantees and contractors are keeping although they are not entitled to the funds under applicable laws and regulations. Also, sizable savings in operating costs are sometimes being foregone by failure to act promptly on findings involving internal agency operations.

GAO believes a significant procedural change is needed to strengthen audit as the basic tool for preventing unauthorized expenditures and seeing that the intent of Congress is carried out. This change can be accomplished by controlling actions on audit findings more effectively. GAO believes that, among other controls, agencies should require documentation and written legal concurrence on decisions not to pursue recovery of amounts due the Government as a result of audit findings, and provide for an independent official to pursue the resolution of findings if the designated program official does not complete action within six months.



FGMSD-79-3  
OCTOBER 25, 1978

BY THE COMPTROLLER GENERAL

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COMPTROLLER GENERAL'S  
REPORT TO THE CONGRESS

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D I G E S T

Under various programs, the Government relies on audit as the basic tool for preventing unauthorized expenditures and seeing that the intent of the Congress is carried out. Accordingly, the Congress and agencies have continually provided for audits of grantees' and contractors' records as the primary mechanism to keep funds from being spent for unauthorized purposes. Auditors also direct their attention to identifying policy and procedural changes that can produce sizable savings.

To insure that audits are effective, GAO and the Office of Management and Budget (OMB) policies spell out requirements for managers to take prompt action to decide what should be done and to complete corrective measures as is necessary on auditors' findings.

GAO found that the lack of a good system for resolving auditors' findings could be costing the Government hundreds of millions of dollars annually--most of which grantees and contractors are keeping although they are not entitled to these funds under applicable laws or regulations. Also, sizable savings in operating costs are sometimes foregone by failure to act promptly on findings involving internal agency operations. (See p. 4 to 12.)

GAO's examination disclosed that \$4.3 billion in audit findings, contained in nearly 14,000 audit reports of 34 agencies, had not been resolved. GAO estimates that about 80 percent of this amount involves potential recoveries from grantees and contractors, including what they either spent for purposes not authorized by Federal laws and regulations or could not support as charged to the Government.

The remaining 20 percent involves potential savings in operating costs. (See p. 4.)

The totals listed above are not all the unsettled audit findings. The actual number or amount is unknown. Further, GAO was unable to determine how old the unresolved findings were because such data was not available. GAO partially identified findings of at least one-half billion dollars remaining unresolved for 2 years or more. Some were unresolved for as long as 10 years. (See p. 4.)

GAO's detailed study at six major agencies showed that resolution drags out for years, averaging about 1-1/2 years and taking as long as 5 years for selected reports. GAO also found that agency officials often resolved valid findings in the grantee's or contractor's favor without adequate explanation, allowing them to claim and keep 62 percent of the amount which auditors reported as questionable. Further, even when officials agreed with the auditors, they actually collected less than half the amount due the Government. (See pp. 5 to 12.)

The study also showed several reasons why the present system for resolving audit findings is not effective. Under this system, the officer who has the final word on the settlement of audit findings is usually an administrator of the program or operation that was audited. It is these officials who often have failed to act promptly on audit findings and in many cases have not recovered the funds returnable to the Government. (See pp. 13 to 27.)

#### LOW PRIORITY

GAO believes these officials find the task of resolving audit findings onerous and therefore of low priority. (See pp. 16 and 17.) For example, for 5 years administrators simply did not take the necessary time to collect \$3 million overpaid to a contractor.

Recovery will be difficult because the agency no longer does business with the contractor. (See pp. 6 and 16.)

#### INADEQUATE JUSTIFICATION AND LEGAL ADVICE

Although sometimes inconsistent with their main duties, agency administrators have the final word on settlement of auditors' findings. They often decide not to pursue significant dollar recoveries from grantees and contractors without adequate explanation or proper legal advice. (See pp. 17 to 19.) For example, administrators allowed a grantee to claim \$4.4 million for medical services which auditors determined should have been paid partially by private insurance companies. Without seeking legal advice, administrators cited potential legal problems as the reason. (See pp. 8 and 18.)

#### NOT AGGRESSIVELY SEEKING COLLECTIONS OR SAVINGS

Agency administrators often do not aggressively seek collection or savings needed for final resolution. Basically, agencies have not established accounting and collection control over amounts to be recovered from auditors' findings. (See pp. 19 and 20.) For example, administrators had allowed the statute of limitations to expire before attempting to collect \$1.5 million that auditors recommended a grantee return to the agency. An agency official said there was no attempt because of the uncertainty about the collectability of the funds. For the same reason, administrators did not seek collection of another \$121,000. (See p. 19.)

#### SYSTEMS ARE DEFICIENT

Few agencies have adequate systems for tracking and resolving audit findings, resulting in inadequate resolution. Contrary to OMB policy, many agencies have not established time frames for responding to audit recommendations and lack adequate reporting systems to inform

agency management of actions taken on audit reports. Also, their systems did not track resolution to final settlement. Where the recovery of the funds is involved, this means until the funds are recovered, the debt forgiven, or the finding determined to be in error. (See pp. 20 to 25.) For example, because of an inadequate system for resolving audits of subgrantees, some 10 months later agency managers had not decided on the merits of a grantee's decision to allow a subgrantee to claim \$4.6 million despite evidence the subgrantee may have violated Federal regulations. The subgrantee was also a member of the grantee's audit review committee which decided to allow the costs. (See p. 23.)

#### CONCLUSION

It is apparent that the current system of letting the program administrators have the last word in resolving audit findings has not proven effective. GAO believes OMB should expand its policies to provide for a significant procedural change which would remove final responsibility for deciding on findings from the administrators.

GAO believes such a change, as discussed in its recommendations, would also encourage auditors to improve their performance and provide managers with more prompt and complete reports.

GAO also recommends that OMB make appropriate changes to its management circulars to establish the requirements recommended above.



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*IG for C/Audit*

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Remarks:

*10/11: No advice if response appropriate. If so please prepare for DDCI's signature.*

Executive Secretary

*30 Oct.*

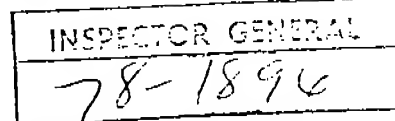
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2637 (4-78)

STATINTL



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548



October 25, 1978

B-160759

The Honorable Admiral Stansfield Turner  
Director, Central Intelligence  
Agency

Dear Admiral Turner:

The enclosed report summarizes the results of our Government-wide review of how Federal departments and agencies resolve auditors' findings. It shows that significant administrative changes and accounting controls are needed to insure that Federal officials take corrective action as necessary on audit findings.

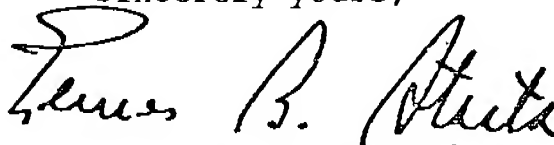
We are sending this report to you because its recommendations are addressed to each of the agencies having audit staffs, and because information included in the report was obtained from one or more locations under your control.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House Committee on Government Operations and the Senate Committee on Governmental Affairs not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report. We would appreciate receiving copies of those statements.

We also wish to advise you that we asked the Departments of Commerce, Defense, Housing and Urban Development, Labor, and Health, Education, and Welfare, and the Environmental Protection Agency, as well as the Office of Management and Budget for their comments on our draft report. As of October 23, 1978, some comments had not been received from these agencies. Consequently, agency comments along with our evaluation, will be issued under separate cover when they all have been received.

We appreciate the cooperation of your staff during this review.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James B. Stute".

Comptroller General  
of the United States

Enclosure

Approved For Release 2001/08/14 : CIA-RDP81-00142R000100030002-9

REF  
B

Approved For Release 2001/08/14 : CIA-RDP81-00142R000100030002-9

Central Intelligence Agency

Executive Registry

78-1423/4



Washington, D.C. 20505

INSPECTOR GENERAL

78-1937

9 NOV 1978

Honorable Elmer B. Staats  
Comptroller General of the  
United States  
Washington, D.C. 20548

Dear Mr. Staats:

Thank you for your letter of 25 October 1978 transmitting to us the results of your Government-wide review of how Federal departments and agencies resolve auditors' findings.

We shall study your report carefully and take such corrective actions as we believe necessary to improve our internal audit procedures.

Sincerely,

/s/ Frank C. Carlucci

Frank C. Carlucci

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OLC/ELS/b1 (RETYPE 9 November 1978)

31 Oct 78  
DATE

WALLER

STATINTL

*W*  
*Jim*  
*For draft response*

*Frank: I assume we do not make  
specific response. whatever we do should  
be coordinated with Jim Taylor's office.  
and OLC.*

From:

Return to:

*GRB - send out*

United States General Accounting Office  
Chicago Regional Office  
230 South Dearborn Street  
Chicago, Illinois 60604  
Attention: Mr. Melvin J. Koenigs

Gentlemen:

Attached is the statistical data  
requested in your letter of 30 June 1977. Please  
advise if we may be of further assistance.

Sincerely,

John H. Waller  
Inspector General

Attachment

STATINTL

DC/AS/ [REDACTED] eh  
(26 July 1977)

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STATINTL

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